GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.
ÁKK

HUNGARY
Investor Presentation

November 2020

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KEY FACTS AND FIGURES ON HUNGARY

Area: 93,023 sq. kilometres

Capital: Budapest

Population: 9.8m

Life expectancy: 76.1 years

Currency: Forint (HUF)

Exchange rate (2019):
325.35 HUF = 1.00 EUR[1] 290.65 HUF = 1.00 USD[1]

Nominal GDP (2019): HUF 47,514 billion (EUR 146.0 billion)

Real GDP growth (2019): 4.6%

Public debt (2019): HUF 29,682 billion (EUR 91 billion)

Public debt in foreign currency (2019): HUF 5,121 billion (EUR 15 billion)

Sovereign ratings: BBB / Baa3 / BBB

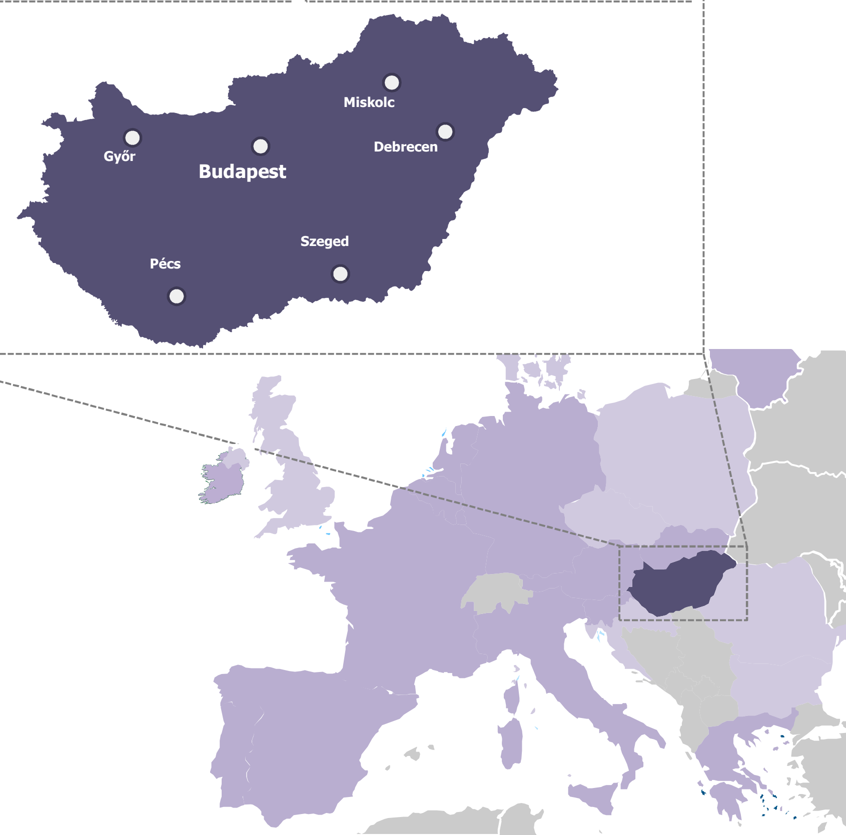
Government: parliamentary republic

EU member country since: 2004

Schengen area member since: 2007

Key economic sectors: manufacturing; wholesale and retail trade; automotive; education and health

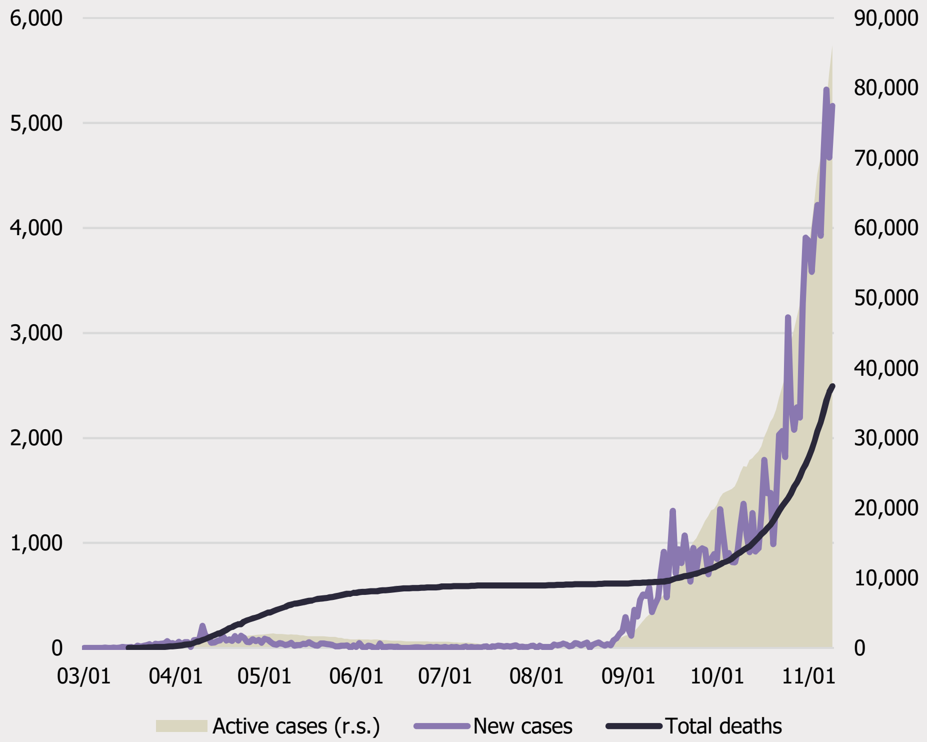
A high income economy with a strategic location at the centre of Europe and memberships in key international organizations



Note: 1. Average exchange rate in 2019
Sources: Government Debt Management Agency of Hungary (AKK), Hungarian Central Statistics Office (HCSO), HIPA, Magyar Nemzeti Bank (the central bank of Hungary) (MNB), World Bank, Bloomberg, European Commission

I. MEASURES TO FACE CORONAVIRUS PANDEMIC

COVID-19 SITUATION IN HUNGARY



NO. OF HOSPITAL BEDS

Hungary is among the top 5 countries in the EU (more than 700 beds per 100,000 inhabitants)

MEASURES TO CONTROL THE SPREAD – 1ST WAVE

- Students in **all levels of education** were **not allowed to visit** educational institutions.
- Hungary **closed its borders**.
- Introduction of a state of emergency and **official home quarantine.**
- **Construction** of an **emergency epidemiology hospital** started. Hospital commanders operated at hospitals for the protection of healthcare supplies.
- A Government decree on **restricting movement** was issued and was effective from 28 March.
- **Restaurants were closed**, only takeaway was permitted.
- Between 9 a.m.-12 noon shops were accessible only **for persons of age of 65 and above exclusively.**

MEASURES TO CONTROL THE SPREAD – 2ND WAVE

- **Students of secondary education and of universities** are not allowed to visit educational institutions (online education).
- Hungary **keeps its borders closed**.
- Re-implementation of **state of emergency**.
- **Restriction of movement** between 8 p.m. and 5 a.m.
- **Restaurants are closed**, only takeaway is permitted.
- **Hotels** can only have business travellers.
- **Shops have to close at 7 p.m. at latest**; museums, theatres etc. are completely closed.
- **Non-life-saving surgeries** are postponed.

HUNGARY IS IN STRONG POSITION TO FACE THE IMPACT OF COVID-19

Measures to face coronavirus pandemic	• The Government is taking **extraordinary measures to contain mass infections and mitigate the economic impact of Covid-19,** as illustrated in slide 7 & 8 • The **MNB took a series of coordinated measures** including adjustment of policy rates, introduction of new liquidity enhancing facilities and executing asset purchases, as illustrated on slide 14 • Fiscal policy measures result in a **total stimulus of HUF 10,814 billion** equalling 23.3% of GDP, as illustrated on slide 10
Strong and resilient economy	• **Hungary was one of the fastest growing economies in Europe with real GDP growth of 4.6% in 2019** (3 times higher than the EU average) and **is facing the Covid-19 crisis from a resilient position**, as illustrated on slide 16 • **The economy benefits from strong investment dynamics,** enjoying the second highest investment rate in Europe in 2019 • **The level of unemployment is low,** amounting to 3.3% in Q4 2019, 3.7% in Q1 2020 and 4.6% in Q2 2020 • **Hungary's economic environment is stable:** inflation has been within the targeted band since 2017 and the banking sector is characterised by low non-performing loan ratio and adequate capitalisation, as illustrated on slide 23
Sound fiscal policies	• **The fiscal deficit was constantly below the EU ceiling of 3% since 2012, however the expected ESA deficit for 2020 is 8%-9% of GDP (compared to the original 1.0% target and 3.8% target set in Spring) in response to Covid-19** (see slide 25) • **Domestic fiscal rules and counter-cyclical fiscal policies have allowed the public debt to decline steadily since 2011** – i.e. by 15 percentage points over 2011-2019, reaching 65.4% of GDP at year end 2019, as illustrated on slide 26 • **Fiscal policy will be supportive in 2020 in response to Covid-19, however in the medium term the government remains committed to fiscal consolidation and reduction of public debt**
Favourable external position	• **Hungary enjoys a positive net international lending position since 2009,** as illustrated on slide 29 • **This positive external position is largely explained by the country's trade surplus,** which has been supported by the rise in services exports in recent years, as illustrated on slide 29 • **External debt indicators are at historical lows** with a gross external debt (including intercompany loans) level of 81% of GDP in Q2 2020 compared to 129% in 2012, as illustrated on slide 30 • **International reserves are adequate**, representing 1.5x the level of short-term external debt of the sovereign, as illustrated in slide 30
Effective debt management	• **Hungary is an Investment Grade country that benefits from highly supportive financing conditions,** as illustrated on slide 27 • **The structure of public debt is favourable** with a decreasing share of FX debt, increasing average term to maturity and a highly diversified, deep and liquid domestic market, as illustrated on slide 36 & 37 • **The development of the retail market has been a key driver of the expansion of the domestic investor base,** as illustrated on slide 33 & 34

FIRST WAVE – ECONOMY PROTECTION ACTION PLAN: IMMEDIATE AND MEDIUM-TERM MEASURES

THE ANNOUNCED MEASURES INCLUDING PROGRAMMES LAUNCHED BY THE CENTRAL BANK WILL REGROUP 23.3% OF GDP IN TOTAL

RESTARTING THE PRIORITY SECTORS

These sectors include tourism, health industry, food industry, agriculture, construction industry, logistics, transport, film industry and creative industry.

PRESERVING JOBS

Wage support, more flexible work organisation, online trainings, tax reliefs and administrative burden reduction.

PROVISION OF SUBSIDISED CREDIT FACILITIES

Interest- and guarantee-subsidised credit facilities to Hungarian businesses in the total value of more than HUF 2,000 billion.

CREATING JOBS

Support of employment costs, job creation by supporting corporate investments, training and education support.

FAMILY AND PENSIONER PROTECTION

Reintroducing the 13th month pension, facilitations for family allowances, support for nursery care, expiring maternity entitlements will be extended.

SECOND WAVE – SAVING JOBS, SIMPLIFYING TAXES AND ENHANCING INVESTMENTS

Hotels can only accommodate business guests, not tourists. Reservations made until 8 November will be compensated for up to 80% of their value. This applies for the first 30 days and only if the workforce is kept intact.

Restaurants and leisure facilities: tax exemption after employees, 50% of the wages are compensated for. This applies for the first 30 days and only if the workforce is kept intact.

Tax and administrational easing: intermediaries are exempt from tourism contribution, preliminary VAT return forms are completed by the Government, the upper limit of HUF 10 billion for long-term development reserve of the companies is erased, the income upper limit for small companies taxation is doubled, the cost of more than 1.5 million administrational burdens are erased, easing for companies with multiple premises, public procurement system is simplified.

Increasing employment: HUF 12 billion programme to support labour market demand for young, uneducated job seekers, supporting the education of parents with dependent children, scholarship programme.

Support for construction and home creation: VAT is reduced for newly built houses from 1 January 2021 to 31 December 2022 to 5%, VAT is refundable and exempt from housing tax, if the apartment is bought via CSOK (Family Housing Programme), home renovation support for families with children, multi-generational housing is encouraged.

HUNGARY FACES THE COVID-19 CRISIS WITH A STRONG POLICY TRACK RECORD

Key highlights of government support

- **The Hungarian government is implementing a wide range of measures to support the economy in response to Covid-19**
  - 2020 budget reserves of 1% of GDP mobilized
  - Creation of the Disease Control Fund and Economy Protection Fund, mainly with budgetary rearrangements
  - The Parliament modified the 2020 Budget Act in June and made the Economy Protection Fund uncapped
  - Most recent ESA budget deficit target for 2020 was set to 8%-9% of GDP up from 1.0% initially budgeted and 3.8% targeted in the April Convergence Programme
  - Total measures worth HUF 10,814 billion (23.3% of GDP) for 2020 to mitigate the impact of the crisis
- **The government is committed to mitigating the economic downturn with economic protection, job creation, tax and financing measures. The increased deficit related to these measures will result in a higher debt vis-a-vis the original plans; but at the same time will alleviate the size of the downturn**

Key highlights of central bank support

- **Key policy rates remaining highly accommodative and sufficient policy space** following increase in one-week collateralized lending rate to 1.85% following the monetary council decision dated 7 April, 2020
- **Central bank base rate cut by 15 basis points** effective as of 24 June, 2020
- **Central bank base rate cut by an additional 15 basis points** effective as of 22 July, 2020
- **Enhanced liquidity** thanks to the introduction of 1-week FX swap tender, a 5-year long-term collateralized lending facility and the release of capital buffers of systemically important credit institutions
- **Introduction of asset purchase programs** with the Government Security Purchase Programme and the Mortgage Bond Purchase Programme
- **Introduction of a new and enlarged Funding for Growth Scheme** to ensure access to required and affordable funding for domestic SMEs

➢ **Balanced approach to maintain rates at low levels, ensure ample liquidity and achieve low long term rates**

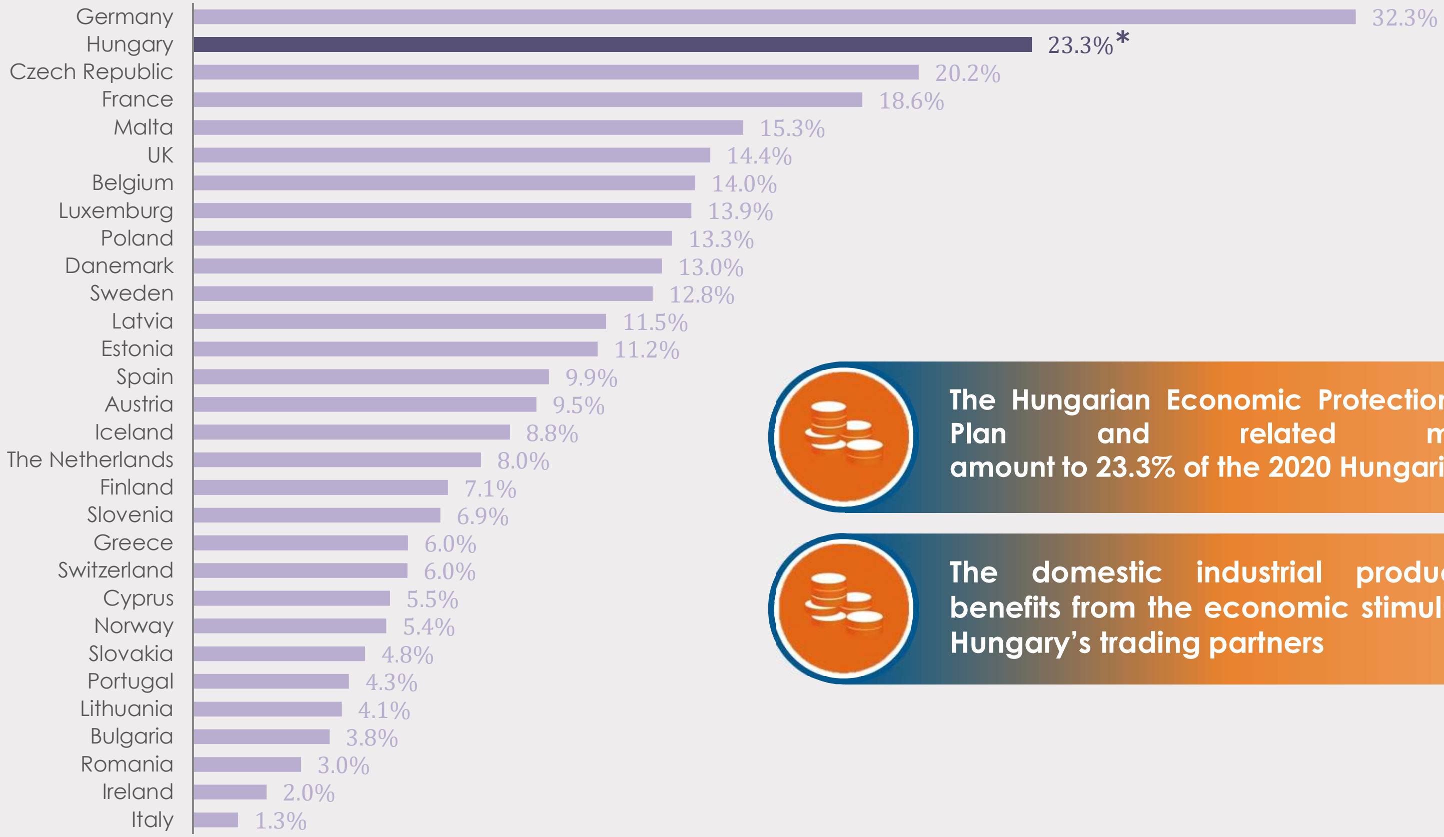
GOVERNMENT MEASURES TO ALLEVIATE ECONOMIC IMPACT OF THE PANDEMIC AS OF 7 NOVEMBER, 2020

Area of action	Sum of measures for 2020	
	HUF billion	% of GDP
Total measures = 1) + 2) + 3)	**10,814**	**23.3%**
1) Pandemic measures	810	1.7%
2) Economic policy measures = A) + B)	2,802	6.0%
A) Discretionary tax and social measures	394	0.9%
Further 2 percentage points cut of the social security tax	160	0.3%
Temporary cuts of certain employer's and employee's taxes until 30 June	69	0.1%
Other tax measures	155	0.3%
Lengthened eligibility for maternity related social transfers	11	0.02%
B) Expenditure measures	2,407	5.2%
To be financed from reallocated domestic budgetary sources	943	2.0%
To be financed from overrun of domestic appropriation	1118	2.4%
To be financed from reallocated EU-co-financed expenditures	347	0.7%
3) Financing measures	7,203	15.5%
Payment moratorium (total size of the measure)	3,600	7.8%
Total amount of new capital, guarantee and loan programs (up to 24 Aug)	2,103	4.5%
Central Bank's Funding for Growth Scheme	1,500	3.2%

Source: MoF Note: 1 Calculated with expected GDP for the year 2020 of HUF 46,369.5 billion; figures are rounded for the first digit and consequently subject to rounding error

THE VOLUME OF THE HUNGARIAN MONETARY AND FISCAL MEASURES COMPARED TO THE LARGEST EUROPEAN MITIGATION PACKAGES

Size of the assistance packages (percent of GDP for 2019)



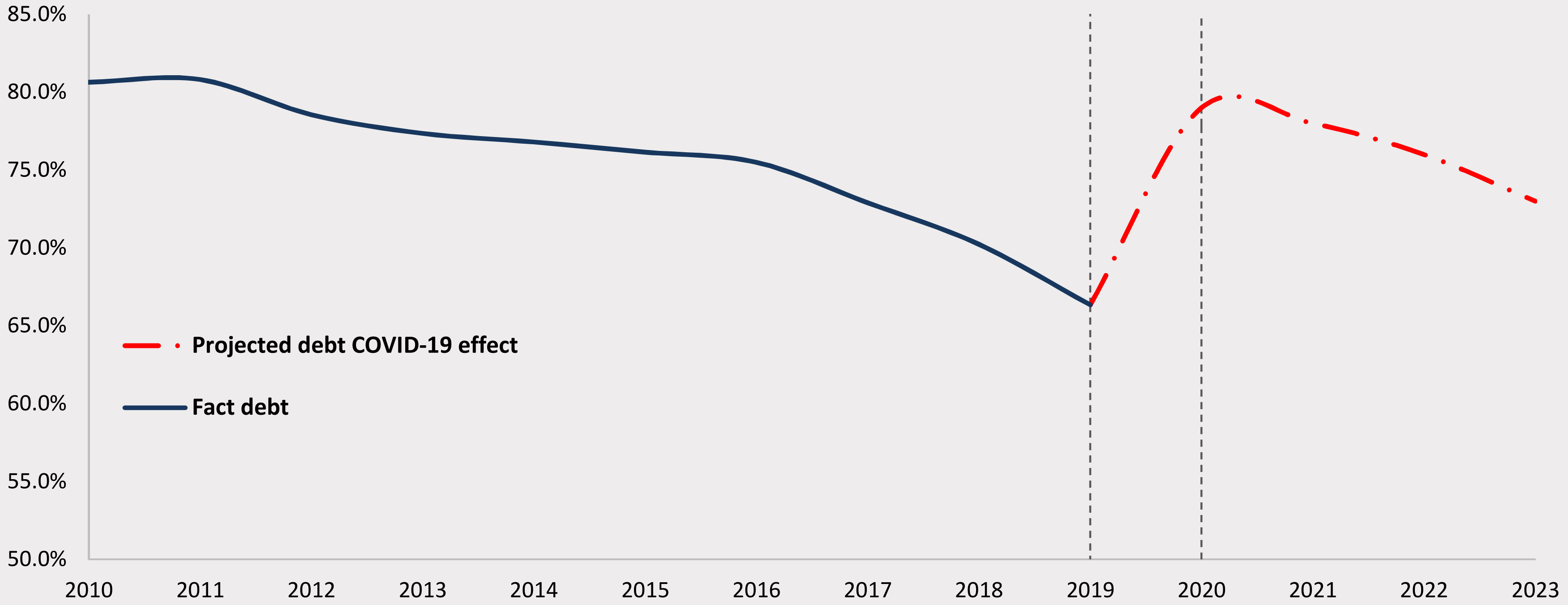
The Hungarian Economic Protection Action Plan and related measures amount to 23.3% of the 2020 Hungarian GDP

The domestic industrial production benefits from the economic stimulus of Hungary's trading partners

*Source: MoF Note: * In case of Hungary, size of assistance package relative to GDP for 2020*

DESPITE THE INCREASE OF THE DEBT RATIO THIS YEAR, THE GOVERNMENT IS COMMITTED TO THE REDUCTION OF THE PUBLIC DEBT

Evolution of the public debt ratio (% of GDP)



By setting an 8-9% ESA deficit target for 2020 the government wants to deliver more direct budgetary support in order to alleviate the size of the downturn – this will lead to an upward shift in the public debt ratio.

Looking ahead, domestic fiscal rules stipulate the reduction of the public debt.

HUNGARY, SIMILARLY TO OTHER COUNTRIES, IS FOCUSED ON THE ECONOMIC RECOVERY AND KEEPING PEOPLE EMPLOYED

	Hungarian focus measures	Note	Some countries that also apply
1	**Hungarian "Kurzarbeit"**	Government support for short-term work for the period of the lockdown. The Hungarian government took over 70% of the lost salary for 3 months.	
2	**Maintaining household income**	Expiring benefits for persons currently on maternity leave were extended until the end of state of danger. Parents raising a chronically ill or disabled child do not cease to be eligible until the last day of the 2nd month after the end of the emergency. Employees' contributions were reduced to level equivalent to the basic health insurance contribution (HUF 7,710) payable in sectors severely affected by the epidemic.	
3	**Payment moratorium for companies and households**	Payment moratorium was introduced for debtors of households and company credit, loan and financial lease contracts until 31 December 2020.	
4	**Deferred tax payment**	Tax holiday in accommodation, food, arts, entertainment and recreation services on employers' social security contributions. Tax holiday for small businesses under the simplified, small business oriented tax regimes.	
5	**State guarantee**	Measures offer interest- and guarantee-subsidised credit facilities to Hungarian businesses.	

Source: Hungarian Government, MoF, MoJ

OVERVIEW OF KEY MONETARY POLICY MEASURES

Rates

- **Following the monetary council meeting on 7 April 2020:**
  - Base rate and overnight deposit rate remains unchanged at 0.90% and at -0.05%, respectively
  - Overnight and one-week collateralized lending rate have been raised to 1.85%
  - 1-week deposit rate remains equal to the base rate
- **On 23 June 2020, the central bank base rate was decreased to 0.75%** (effective as of 24 June 2020)
- **On 21 July 2020, the central bank base rate was decreased to 0.60%** (effective as of 22 July 2020)

Liquidity / new facilities

- **Introduction of 1-week FX-swap tenders** providing forint liquidity daily for counterparties on 17 March
- **Introduction of a long-term collateralized lending facility with maximum 5-year maturity** to support banks' liquidity management on longer-term maturities and strengthen the functioning of the government securities market on 24 March:
  - Amount: unlimited (each tender follows market conditions)
  - Interest rate: fixed during the whole period
  - Unconditional: it may be used for loans to private sector, FX and interest rate swaps, for buying treasury bonds or for interbank transactions
- **Introduction of a new 1-week deposit facility paying the central bank base rate on 1 April aiming at addressing uneven liquidity distribution**
  - Available for MNB's monetary policy counterparty institutions (domestic financial institutions with VIBER or BKR membership)
  - Minimum bid: HUF 10 million – tick: HUF 1 million
  - Lifespan: as warranted by liquidity developments
  - On 2 April MNB accepted all of the submitted bids in worth of HUF 655 billion
  - Since 24 September, the yield of the 1-week deposit facility exceeds the central bank base rate by 15 basis points
- **Suspension of sanctions on reserve deficiency**
- **Release of capital buffers of systemically important credit institutions** on 1 April
- **Introduction of a new Funding for Growth Go! scheme (FGS Go!), worth HUF 1,500 billion**[1]
  - Refinancing rate: 0%, maximum interest rate for SMEs: 2.5%
  - Investment loans: 20-year duration, working capital loans: 3-year duration, max. loan amount HUF 20 billion/company

Asset purchases

- Launch of a **Government Security Purchase Program** in May in the amount of HUF 1,000 billion
- **Easing of Bond Funding For Growth Scheme conditions** (maximum amount of exposure to a given group of corporations increased from HUF 20 billion to HUF 50 billion and maturity of eligible securities increased from 10 to 20 years)[1]
- Relaunch of the **Mortgage Bond Purchase Program** in May in the amount of HUF 300 billion

Balanced approach to maintain rates at low levels and ensure ample liquidity

Note: 1. Sterilization of excess liquidity supply created under the FGS Go! and BGS and preferential deposit facility rate of 4% for additions to stocks of loans/bonds under FGS Go! and BGS
Source: MNB measures enacted by the decisions of the Monetary Policy Council of the MNB

II. STRONG AND RESILIENT ECONOMY

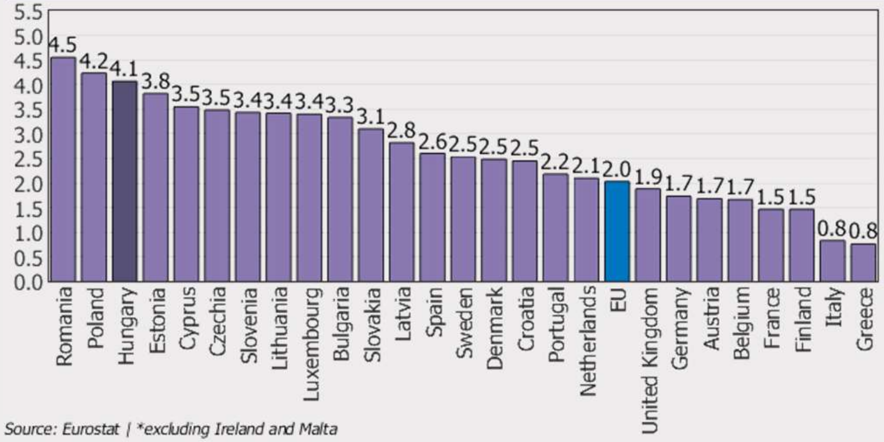
HUNGARY CONTINUES TO BUILD ON SOLID ECONOMIC GROWTH SINCE 2013

Key highlights

- **Since 2013, Hungary's GDP growth has been among the fastest in Europe, as evidenced in the chart on the right**
- **Growth has been partly driven by the turnaround in employment** that happened in the wake of the structural reforms implemented after the economic crisis, including the tax regime
  - The number of people employed rose by over 784,400 between 2012 and Q4 2019
  - Unemployment decreased to a historic low of 3.3% in Q4 2019
  - **This has allowed the Hungarian economy to grow by 4.1% on average between 2014 and 2019, while the EU average has been 2.0%**
- **In 2019, real GDP grew by 4.6%, the fourth highest level in Europe** and three times faster than the EU average, according to data compiled by Eurostat
- The strong momentum in Hungarian economic activity entering the Covid-19 crisis is supportive of the outlook compared to peers
  - Unemployment rate increased to 3.7% in Q1 2020 and to 4.6% in Q2 2020, but decreased to 4.4% in Q3 2020
  - GDP grew by 2.2% in Q1 2020 and decreased by 13.6% in Q2 2020, compared to the corresponding quarter of the previous year
- **Hungarian economy has been addressing the crisis better than the EU on average and is expected to recover faster**

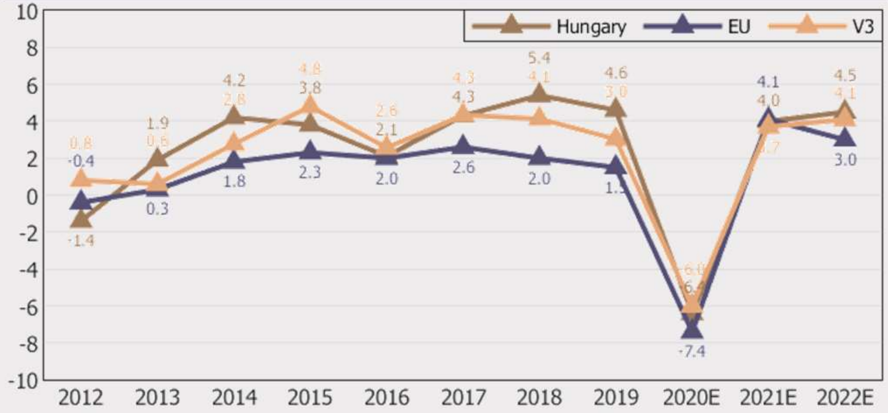
Sources: HCSO, Eurostat

Third highest GDP growth among EU countries 2014-2019*



*Source: Eurostat | *excluding Ireland and Malta*

Real GDP Growth (European Commission Forecast; YoY, %)



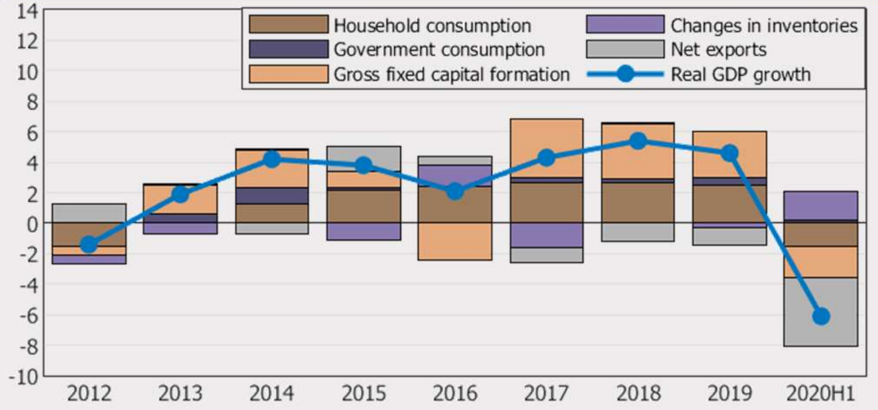
Sources: Eurostat, European Commission 2020 Autumn Economic Forecast; Note: Unadjusted data

GROWTH IS DRIVEN BY BOTH CONSUMPTION AND INVESTMENT

Key highlights

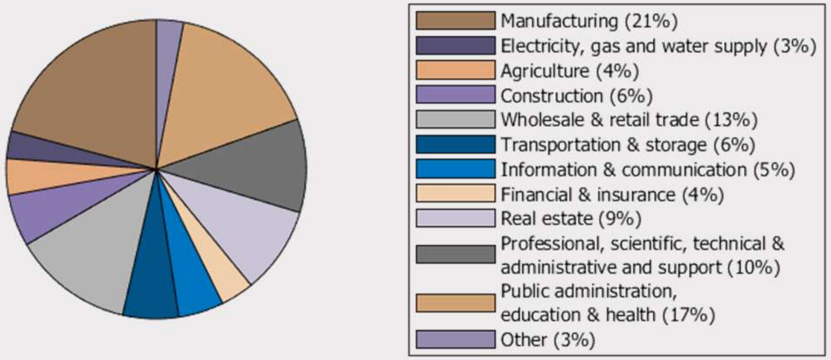
- **Growth in Hungary has been consistently supported by strong household consumption since 2014**
- **Household consumption has been supported by increasing household wealth and a low unemployment rate**
- **This has contributed to the development of the services industry**
  - Although all key sectors grew in Hungary in 2019, the service sector has been a key driver of real GDP growth, as evidenced in the right bottom chart
- **Investment activity has picked up significantly since 2017 with high contributions to GDP growth,** as evidenced by the graph to the right

Contribution to GDP growth by expenditure (percentage points)



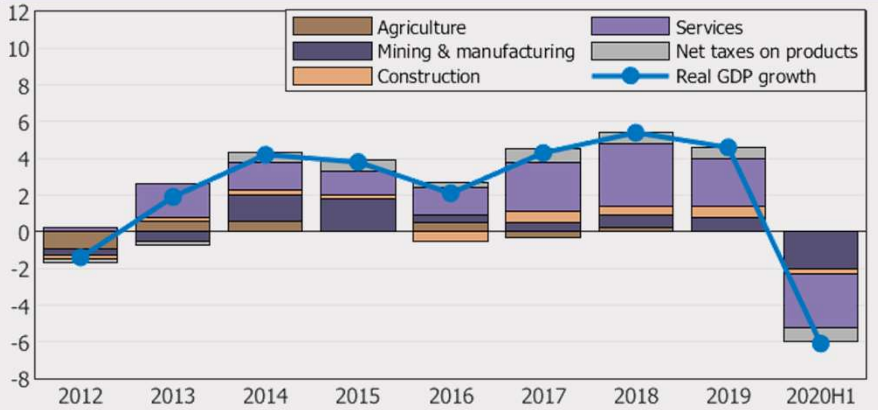
Source: HCSO; Note: Calculated from indices compared to the previous year

2019 Nominal GDP breakdown by sector (% of total)



Source: HCSO

Contribution to GDP growth by sector (percentage points)



Source: HCSO; Note: Calculated from indices compared to the previous year

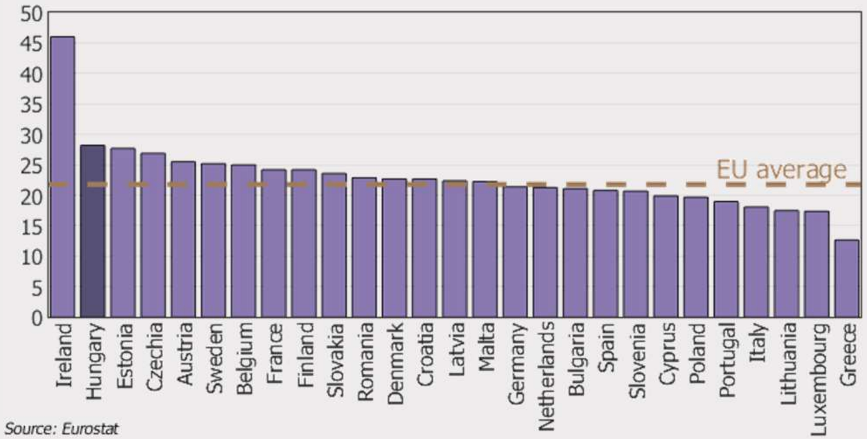
INVESTMENT DYNAMICS ARE SUPPORTIVE FOR THE BROADER ECONOMIC OUTLOOK

Key highlights

- **Hungary benefited from the second highest investment rate in Europe in 2019,** with investment representing 28.2% of GDP (compared to an average of 21.8% among EU-28)
- **Investment has been particularly dynamic in the corporate sector** partly due to incentives including flat corporate income tax rate and investment subsidy program for large corporations
- **The effective absorption of EU funds has also contributed to the positive trend and is expected to keep generating important benefits in the coming years**
  - As of 2019, only 43% of the total EU budget allocated to Hungary for the 2014-2020 period had been spent

Sources: Eurostat, HCSO, Ministry of Finance (MoF)

2019 investment rate in EU countries (% of GDP)



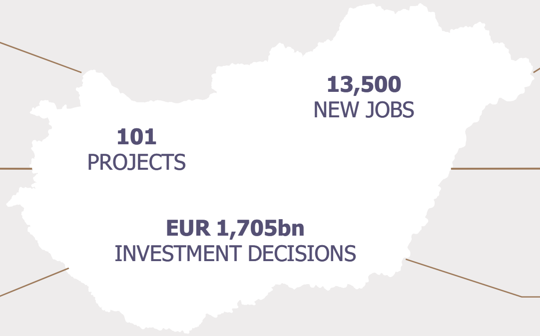
Source: Eurostat

Effective investment incentives and 2019 achievements

Large corporation investment subsidy program: for companies active in the manufacturing sector that contribute to growth through the modernization of economy and expansion of employment

Training Subsidy: available to investors creating at least 50 new jobs. This subsidy is provided for trainings with maximum aid intensity of 50%

VIP Cash Subsidy: for asset investments, business service centres and R&D projects



Source: MoF

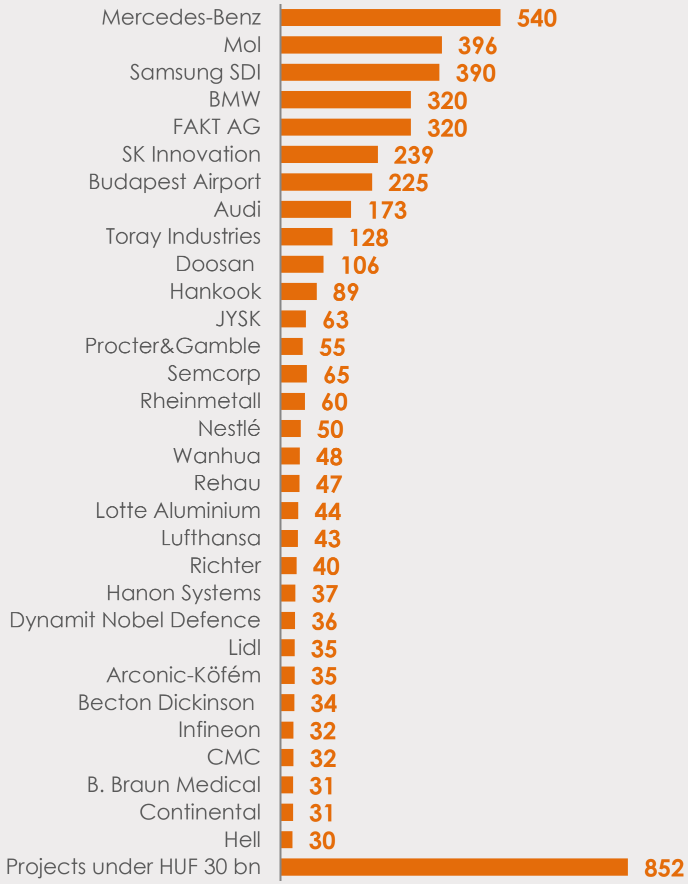
Development tax incentives: tax allowance for post-investment period, exemption for up to 80% of the corporate tax payable for 13 years following installation

9% corporate income tax rate: the lowest rate in the EU, which substantially reduces capital costs and strengthens Hungary's ability to attract capital

Subsidy based on individual government decision: focusing on the creation of high value-added jobs, the maintenance of existing jobs and the improvement of the corporate productivity and automatisation

PRODUCTION INVESTMENT DECISIONS KEEP ON COMING

Flagship investment projects over HUF 30 billion (HUF billion)



Sources: HIPA, Press information, MoF calculation

Despite the pandemic, several new investment projects have been announced since March 2020 with a total amount of more than HUF 650 billion

HUF 4,600 billion

TOTAL INVESTMENT PROJECTS
~10% OF ANNUAL GDP

HUF 14-23,000 billion

ADDITIONAL EXPORT PERFORMANCE PER YEAR

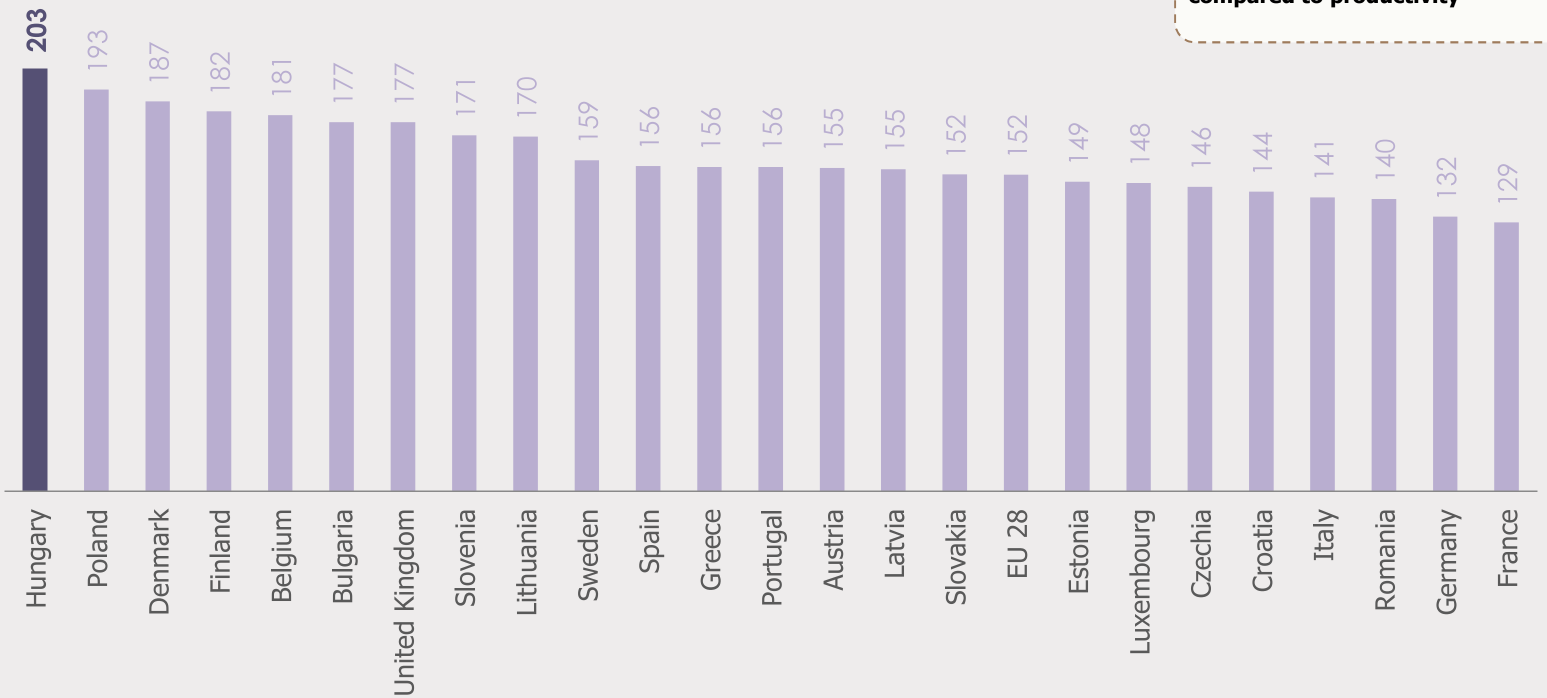
14-18 percentage point

TOTAL GDP GROWTH
INVESTMENT & EXPORT EFFECTS

REALLOCATING PRODUCTION TO HUNGARY IS AN OPPORTUNITY FOR INTERNATIONAL COMPANIES TO MAINTAIN THEIR PROFITABILITY

Wage adjusted labour productivity in manufacturing (%, 2019)

Hungarian wage level is also competitive compared to productivity



Source: Eurostat, MoF calculation

THE NUMBER OF EMPLOYED PERSONS WAS NEARLY 4.5 MILLION IN SEPTEMBER

Monthly number of employed persons (thousand persons, unadjusted data)

According to the monthly subsample of the survey
Source: HCSO

HUNGARIAN HOUSEHOLDS ARE BETTER POSITIONED TO FACE AN INCOME SHOCK

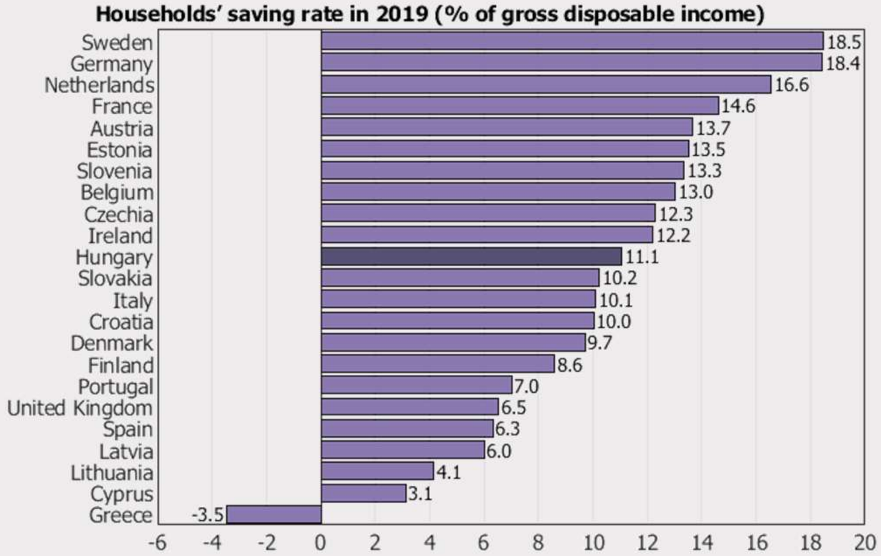
Key highlights

Hungary households are better positioned relative to the 2008 crisis to face an income shock, as illustrated by:

- The saving rate, which has increased by 10% during the period 2008-2018 to reach 12%, which is the highest rate among the EU countries
- Household debt is less vulnerable and has evolved favourably since 2008, as illustrated by the share of FX loans (relative to total household loans) decreasing to almost 0%

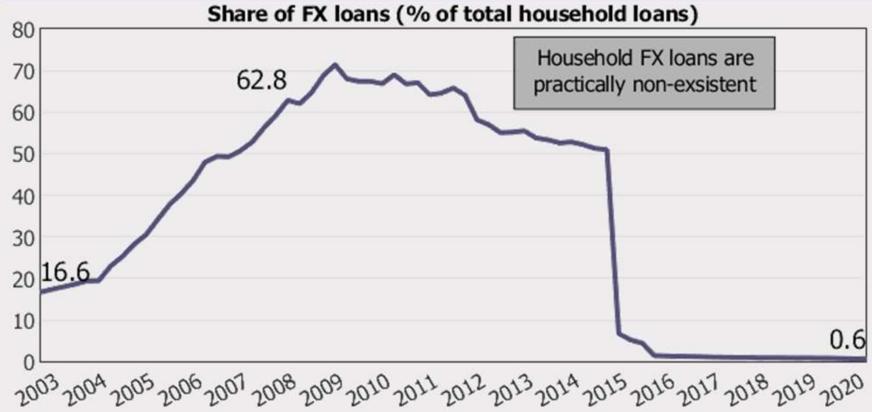
Sources: Eurostat, MNB

Households have a strong financial position that can cushion income shock



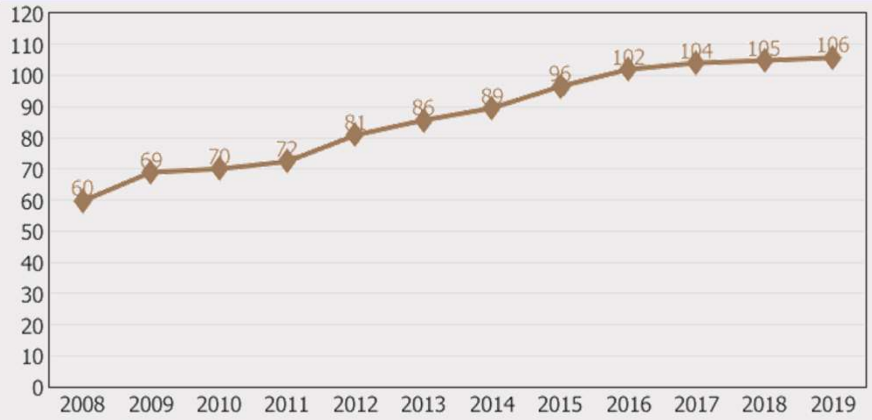
Source: Eurostat

Household debt is much less vulnerable than before last crisis hit



Source: MNB

Net financial wealth of households relative to GDP (%)



Sources: MNB, HCSO

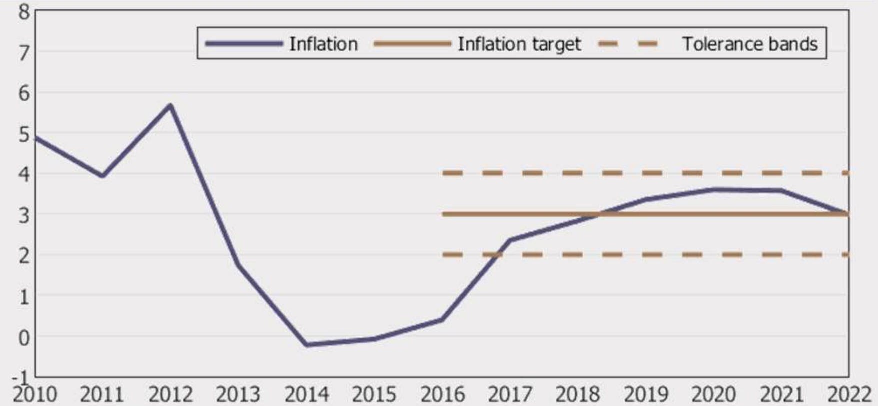
THE MACRO ENVIRONMENT IS STABLE AND THE BANKING SECTOR IS STRONG

Key highlights

- **The MNB's primary statutory objective is to maintain price stability**
  - Policy rate is adjusted to ensure inflation remains anchored at 3%, with a tolerance range of +/- 1%
  - **Baseline yearly average inflation has remained within the defined tolerance band since the beginning of 2017 and is expected by MNB to stabilize around the inflation target by 2022**
- **The banking sector is well capitalized and the quality of loans improved since the end of 2015,** as evidenced on the graph to the right
  - Non-performing loans (NPL) ratio has significantly decreased over the last decade amounting to 4.0% as of the end of June 2020
  - Capital adequacy ratio amounted to 17.9% as of the end of June 2020
  - The MNB has developed a comprehensive macro-prudential framework to ensure financial stability and the Basel III regulation is implemented
- **The Central Bank has adopted a package of measures to mitigate the impact of the Covid-19 crisis on the economy and banking sector, as highlighted on slide 14**

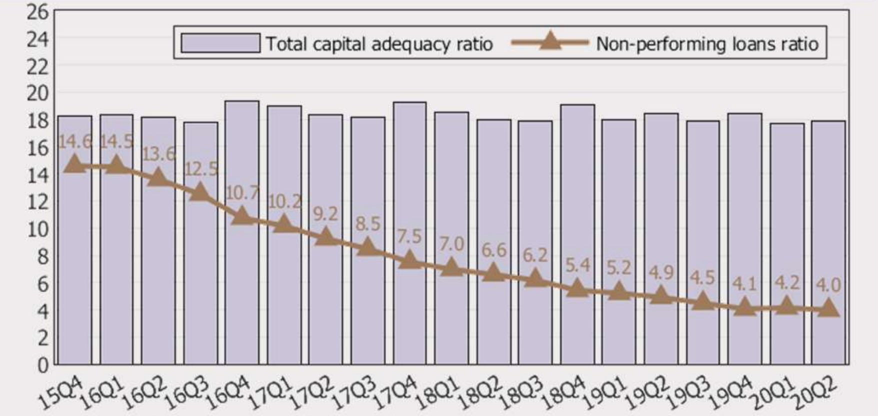
Source: MNB

Inflation vs inflation targets (%)



Sources: HCSO, MNB; Note: Based on seasonally unadjusted data, compared to the corresponding period of the previous year; forecasts as of June 2020 from 2020 onwards

Total capital ratio and NPL ratios (%)



Source: MNB; Note: NPLs are loans at least 90 days overdue

III. SOUND FISCAL POLICIES

PUBLIC FINANCES ARE STRONG AND SUPPORT DEBT SUSTAINABILITY

Key highlights

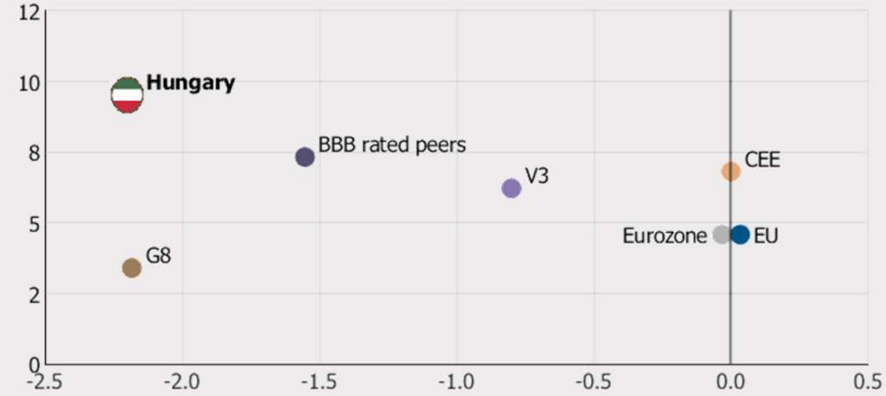
- **The budget deficit has remained below the 3% Maastricht threshold since 2012,** demonstrating the authorities' commitment to fiscal consolidation
- **The government originally aimed to achieve fiscal balance by 2020**
  - The authorities originally set the 2020 ESA budget deficit target to a historic low of 1.0% of GDP
  - In the middle of April, the Ministry of Finance set an ESA deficit target of 2.7% of GDP for the year 2020
  - Subsequently, late April, the ESA deficit estimate was revised to 3.8% of GDP in the Convergence Programme
  - In October, the Ministry of Finance estimated ESA deficit will amount to 8%-9% of GDP in 2020
- **The fiscal reserves of the government were planned to increase in 2020 to represent approximately 1% of GDP.** After the Covid-19 outbreak in mid-March, reserves were spent for pandemic related purchases

Source: HCSO, MoF

Evolution of Hungary's fiscal deficit (% of GDP)

Source: HCSO, MoF; Note: Latest (October) forecast for 2020
Figures beyond 2020 will be published by December at the latest

Rapid nominal GDP growth – contained fiscal deficit (2016-2019 average)



Sources: HCSO, Eurostat, IMF, Bloomberg; Notes: BBB rated peers are countries with at least two BBB ratings; average 2016-2019 growth and fiscal balance for countries; median for peer groups

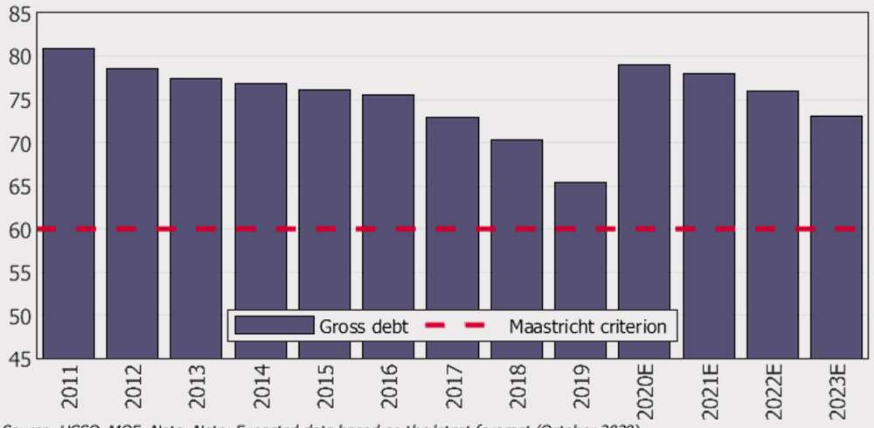
THE GOVERNMENT DEBT-TO-GDP RATIO HAS BEEN STEADILY DECLINING

Key highlights

- **Under Hungary's Fundamental Law, reducing state debt is one of the main objectives of the Government**
  - As long as the debt of the government exceeds 50% of GDP, only budgets which provide for a reduction of the government debt-to-GDP ratio can be adopted
- **The authorities strictly comply with this rule**
  - Fiscal consolidation and a prudent debt management have supported a reduction in Hungary's debt-to-GDP ratio
  - The country has enjoyed a rapid decrease in government debt to GDP ratio of 15 percentage points between 2011 and 2019, whereas debt to GDP ratio has decreased by 0.6 percentage points on average in the EU
  - In 2019, the debt rate declined to 65.4%
  - In a State of Danger, such as COVID-19 pandemic, a special rule allows for a temporary debt increase

Sources: Eurostat, MNB, HCSO, MoF

General Government Debt (% of GDP)



Source: HCSO, MOF; Note: Note: Expected data based on the latest forecast (October 2020)

Evolution of government debt in Hungary and peer groups (% of GDP)

Sources: Eurostat, IMF, Bloomberg; Note: average for peer groups; IMF forecast in case of G8 and BBB rated countries

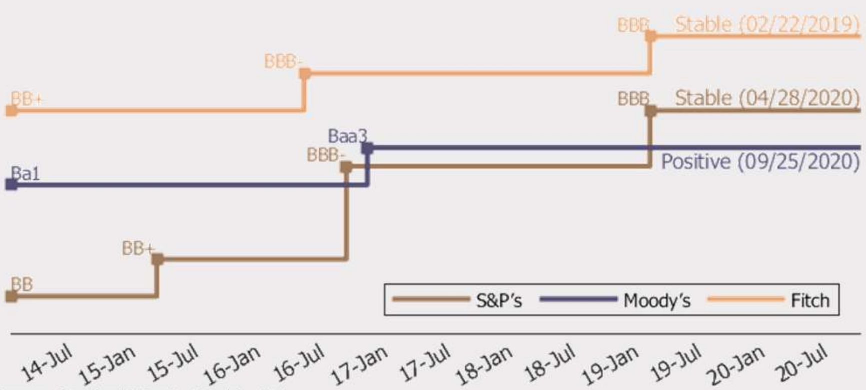
IMPROVING FUNDAMENTALS LEADING TO REDUCED HUNGARY RISK PREMIUM AND LOW COST OF FINANCING

Key highlights

- **Hungary's credit ratings have improved since 2014,** in line with the improvement in the macro-economic fundamentals
  - Hungary has benefitted from multiple rating upgrades since 2014
  - It is currently rated BBB/Baa3/BBB with a positive outlook in case of Moody's
  - The marked decrease in Hungary's CDS premia – approximately 545 basis points between 2011 and October 2020 on the 10Y CDS – also illustrates the increase in market confidence
- **Financing conditions have thus become increasingly supportive,** with Hungary also benefitting from the global context of low rates
  - They remain supportive despite the Covid-19 outbreak, as illustrated by the level of yields and CDS as of end of October 2020

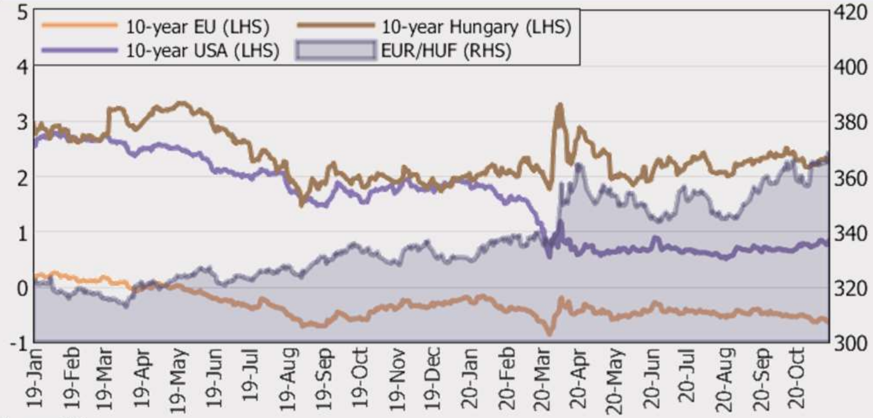
Source: MNB, Reuters, Standard & Poor's, Moody's, Fitch

Evolution of Hungary's ratings



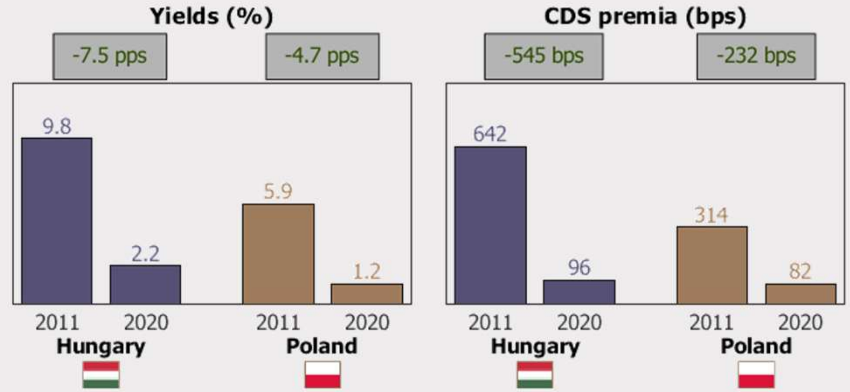
Sources: Standard & Poor's, Moody's, Fitch

Development of the Foreign Exchange Rate (EUR/HUF) and Government Bond Yields (%)



Source: AKK

10Y local yield and 10Y CDS premia in Hungary and peers



Source: Bloomberg; Note: As of Dec. 31, 2011 and Oct. 31, 2020

IV. FAVOURABLE EXTERNAL POSITION

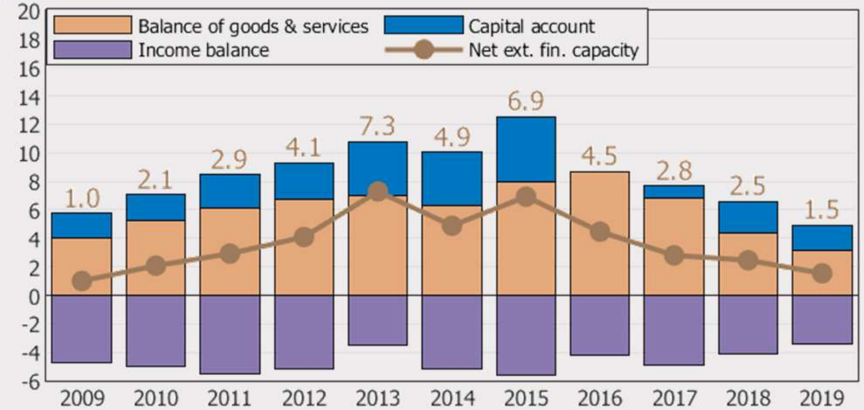
HUNGARY ENJOYS HEALTHY EXTERNAL ACCOUNTS AND A NET LENDING POSITION

Key highlights

- **Hungary's net external lending position is resilient**
  - **The country has been enjoying a net international lender position since 2009**, largely explained by the country's trade surplus that has shown significant surplus amounting to 3-9% of GDP between 2009 and 2019
  - The trade surplus increase has been driven by a rise in net services exports that represented 5% of GDP in 2019
  - Hungary also benefits from a positive capital account, partly driven by EU transfers
- **The goods and services export bases are diversified,** both in terms of sector and geography (with the exception of Germany, no country had a share in Hungarian exports over 5.3% in 2019)

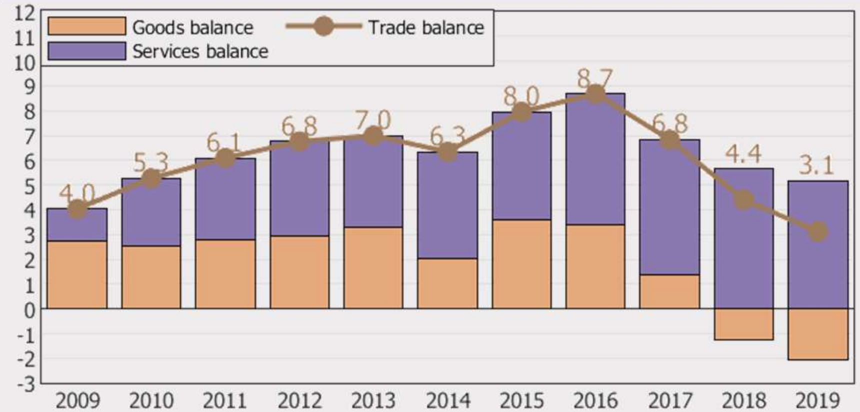
Source: MNB, HCSO

Net external lending components and position (% of GDP)



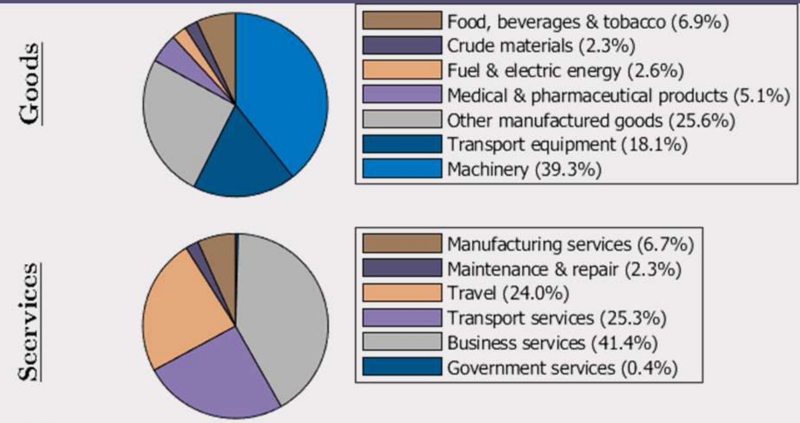
Source: MNB

Trade balance (% of GDP)



Source: MNB

2019 goods and services exports by sector (% of total)



Source: HCSO

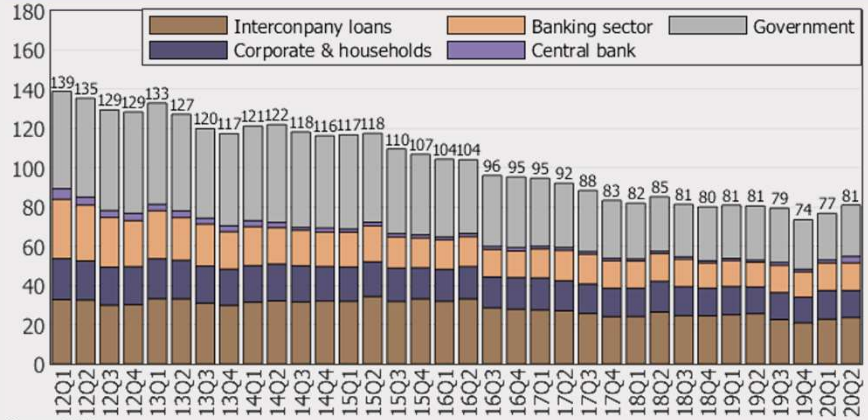
EXTERNAL DEBT HAS STEADILY DECLINED WHILE FX RESERVES REMAIN HIGH

Key highlights

- **External debt indicators have been improving since 2012**
  - Hungary's gross external debt (excluding intercompany loans) has substantially decreased since 2012, notably on the back of active public debt management. It stood at 55% of GDP as of Q1 2020
  - The net external debt of Hungary has also consistently decreased, in line with the significant net lending of the recent years
- **International reserves remain high and continue to considerably exceed the level considered as safe by the Guidotti-Greenspan rule** (see footnote of the chart to the right)
  - Hungary's FX reserves to short-term debt ratio has been above 1.0x since Q2 2012
  - This ratio has improved since 2017, driven by the decline in government short-term debt
  - FX reserves amounted to EUR 32.2 billion on September 30, 2020

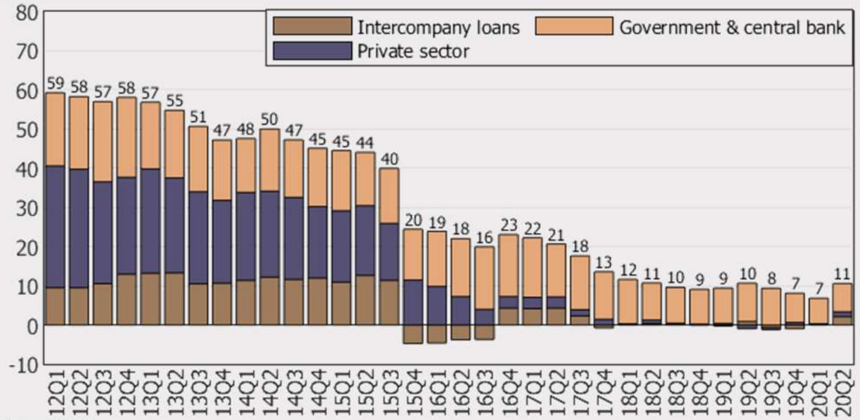
Source: MNB

Gross external debt including intercompany loans (% of GDP)



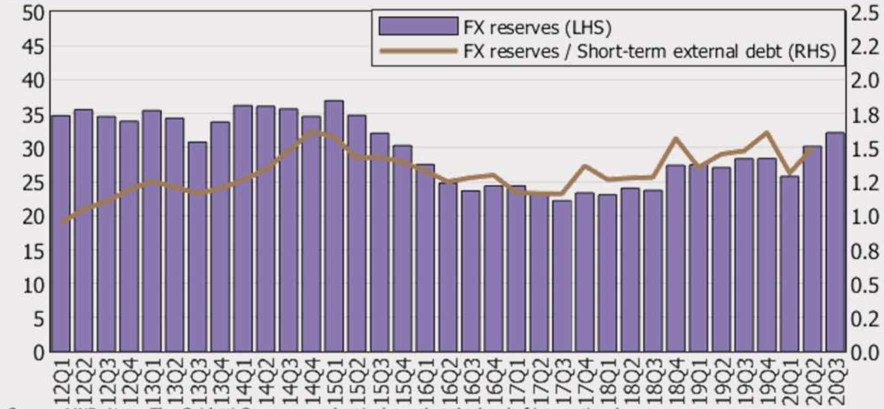
Source: MNB

Net external debt breakdown by sector (% of GDP)



Source: MNB

International reserves level and adequacy (EUR billion)

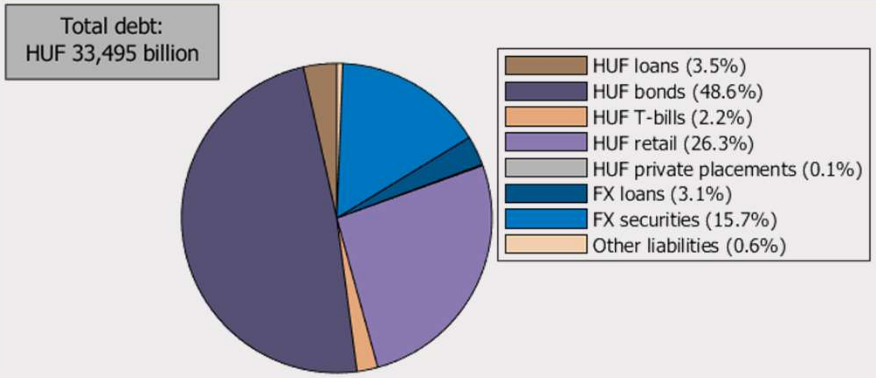


Source: MNB; Note: The Guidotti-Greenspan rule stipulates that the level of international reserves should exceed the level of short-term external debt

V. EFFECTIVE DEBT MANAGEMENT

HUNGARY BENEFITS FROM A FAVOURABLE DEBT PROFILE

Hungary's government debt breakdown (September 30, 2020, % of total)



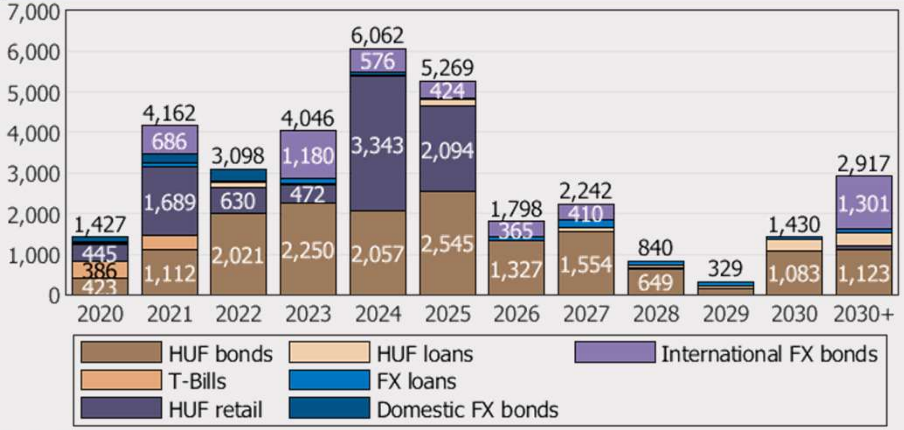
Source: AKK; Note: central government debt

Key targets and characteristics of Hungary's government debt[1]

	2020 benchmark targets		2020 October 31 figures[2]
Share of FX debt	Between 10% and 20%	✓	18.5%
Currency mix of the FX debt (after swaps)	100% in EUR (with a 5% deviation allowed)	✓	100% in EUR
Share of domestic and FX debt with a fixed coupon	Domestic: 60%-80% FX: 65%-85%	✓	Domestic: 78% FX: 80%
Average time to re-fixing of domestic debt	Minimum 3.5 years	✓	4.0 years
Average time to maturity of domestic debt	Minimum 4 years	✓	4.5 years

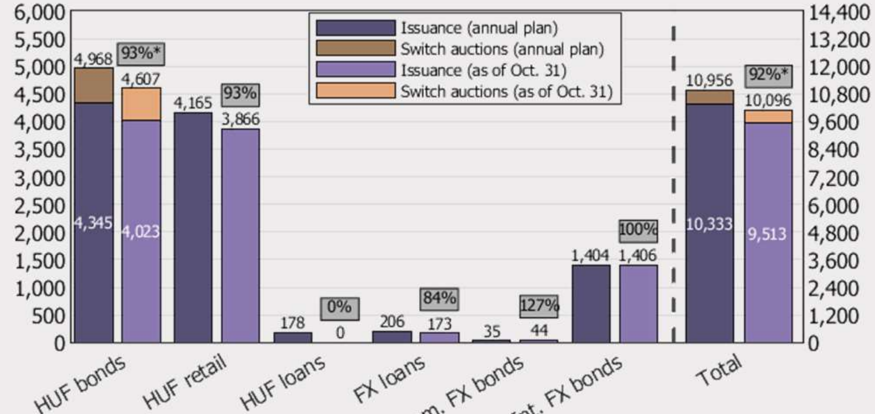
Source: AKK: Note: 1. Central government debt 2. 90-day moving average

Hungary's government redemption profile (September 30, 2020, HUF billion)



Source: AKK; Note: Central government debt

Year-to-date issuance vs August 2020 financing plan (as of October 31, 2020, HUF billion)



*Source: AKK * Excluding switches*

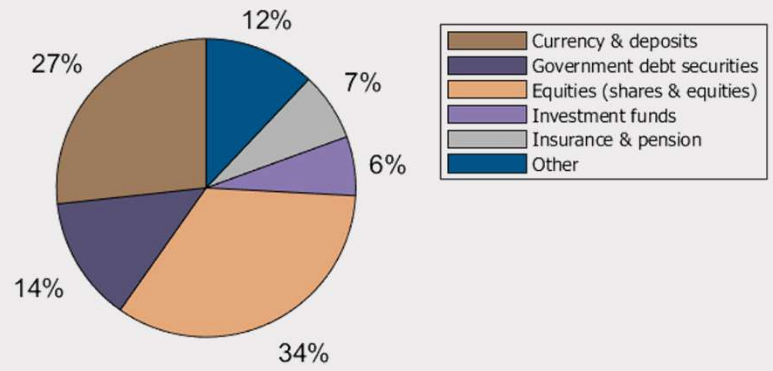
SIGNIFICANT CONTRIBUTION FROM THE HUF RETAIL MARKET

Key highlights

- **The retail sale market constitutes an important financing channel for the Government,** in addition to local and international wholesale/institutional markets
  - The outstanding amount of government retail securities has significantly increased since 2011. It represents HUF 8,848 billion as of October 31, 2020
- **Hungary issues retail instruments with different characteristics, which allow to attract diverse retail investors**
  - Maturities range from 1 to 19 years, securities have step-up, fixed or inflation-linked coupon and besides dematerialized securities there are physical securities
- **AKK is regularly buying back retail securities from market makers to reduce the ownership of retail debt by non-household investors**
- **Using retail government bonds as collateral is not permitted in Hungary**
- Main distribution channels for retail securities are the Hungarian State Treasury (16%), post offices (7%) and banks / investment companies (77%)

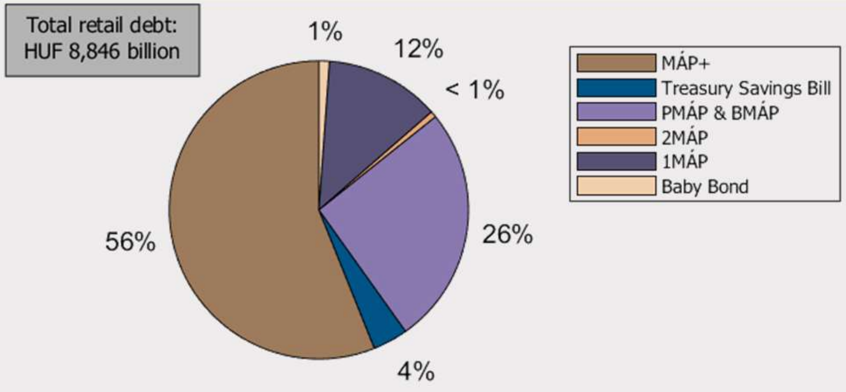
Source: AKK

Households asset structure (Q2, 2020, % of total)



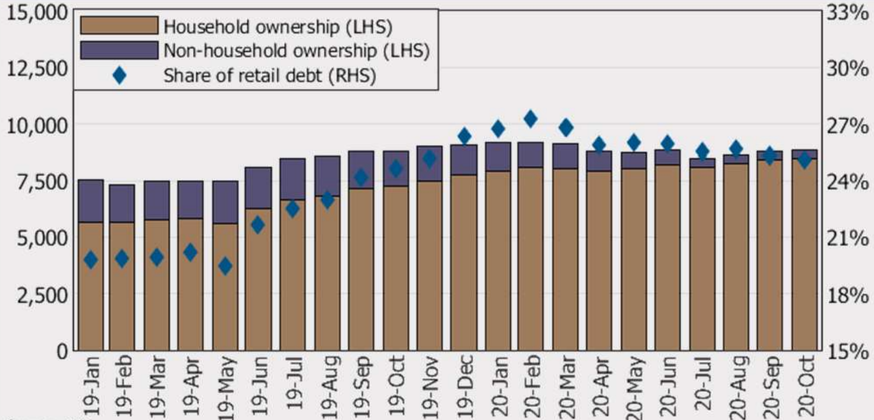
Source: MNB

Retail portfolio by instrument (October 31, 2020, % of total)



Source: AKK; Note: central government debt

Retail securities (HUF billion and % of total)



Source: AKK

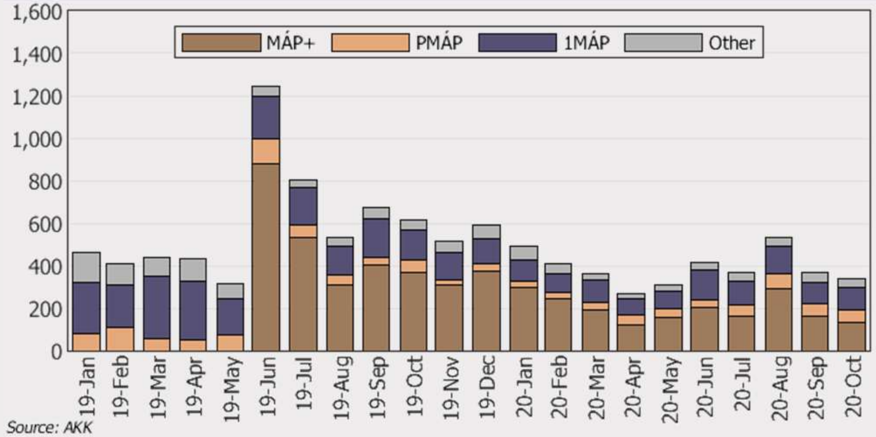
RETAIL MARKET OVERVIEW

Key highlights

- **Since 2012, AKK concentrated on the retail market**, initially using a wide range of instruments each tailored to different investor demand
- **In 2019, AKK introduced a new instrument MÁP+** and reduced the product range. Flagship instruments are:
  - **MÁP+** a bond with 5-year tenor and step-up interest rate (close to an average of 5% when held until maturity)
  - **PMÁP** an inflation-linked bond granting a positive real yield (inflation protection)
  - **1MÁP** a product with a tenor of 1 year (short-term product)
- **Since its introduction, MÁP+ has been the most popular product** and currently accounts for 56% of total retail debt
- In several months of 2020 net issuance was negative, partly driven by seasonality and partly by the global epidemic affecting Hungary
- In recent months, net issuance turned positive again

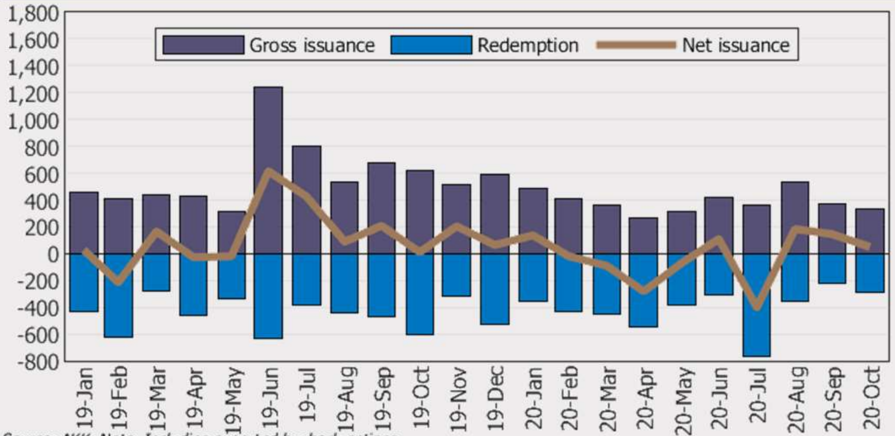
Source: AKK

Monthly Gross Sales of Retail Securities (HUF billion)



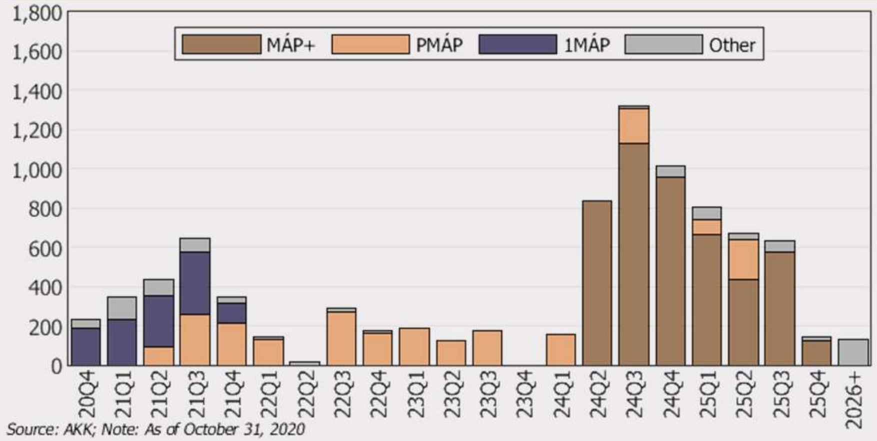
Source: AKK

Monthly Gross and Net Issuance of Retail Securities (HUF billion)



Source: AKK; Note: Including executed buyback options

Maturity Structure of Retail Securities (HUF billion)



Source: AKK; Note: As of October 31, 2020

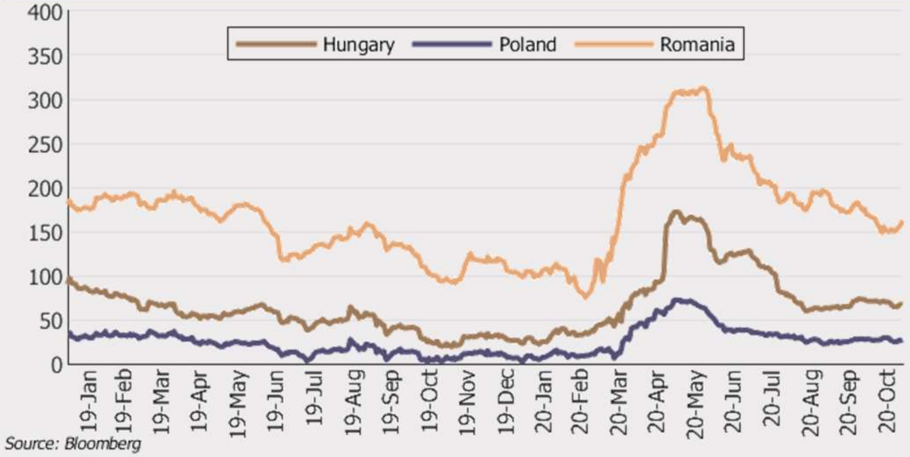
STABILITY ON THE HUNGARIAN GOVERNMENT SECURITIES MARKET

Key highlights

- **The ongoing crisis affected financial markets worldwide, but the Hungarian government securities markets – similarly to regional peers – were moderately affected**
  - Spreads of euro denominated bonds increased significantly during the Spring of 2020 but retreated since then to levels seen in early 2019
- **ÁKK responded to the challenges of the ongoing crisis**
  - Successful foreign currency bond issuances in EUR and JPY (conventional and green euro denominated bonds) to enhance confidence in domestic markets
  - Changing the auction order to enhance flexibility and predictability simultaneously on the local currency market
- **ÁKK is closely monitoring the market and reacts to market demand with increased flexibility**

Source: AKK

Z-spreads of EUR Denominated Government Bonds (Bonds maturing in 2027; basis points)



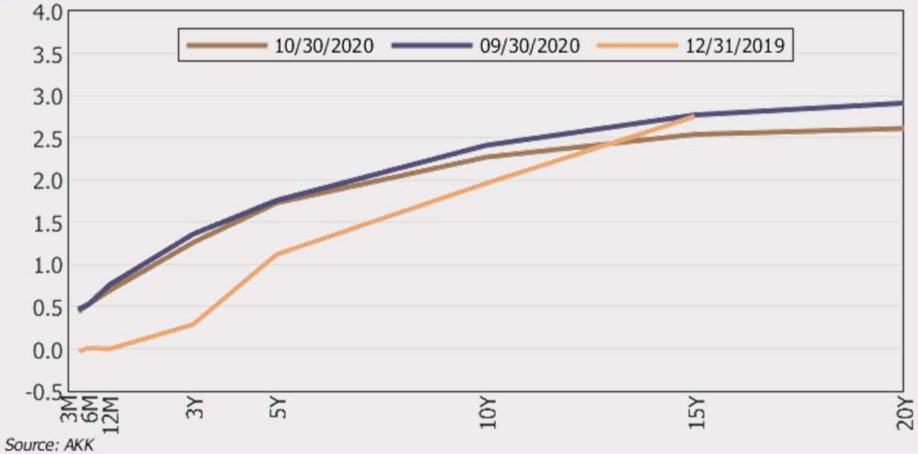
Source: Bloomberg

Auction Order (Announced on October 9)

Source: AKK

	Frequency	Timing
3-months Treasury Bill	Weekly Basis	Every Tuesday
12-months Treasury Bill	Biweekly Basis	Every Second Wednesday
Floating Rate Notes	Biweekly Basis (Subject to Market Demand)	Every Second Wednesday
3-year Government Bonds	Biweekly Basis	Every Second Thursday
5-year and 10-year Government Bonds	Weekly Basis	Every Thursday
15-year and 20-year Government Bonds	Four-week Period	Every Fourth Thursday (15- and 20-year alternating)

Benchmark Yield Curve Development (percent)



Source: AKK

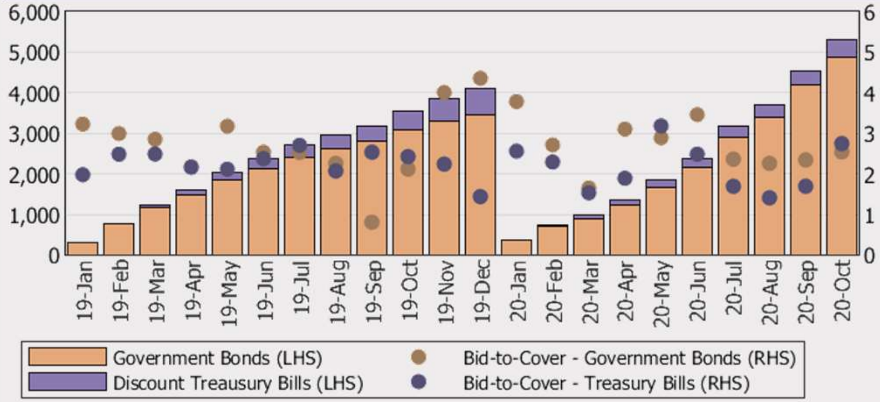
PERFORMANCE ON THE LOCAL WHOLESALE MARKET IS POSITIVE

Key highlights

- **To ensure simplicity and transparency, AKK issues standard debt instruments according to a fixed annual calendar published in advance**
- **Primary auctions are implemented as well as switch and buyback operations** to support a balanced government bond issuance pattern, manage the maturity profile and reduce refinancing risk
- **Hungary's local yields have significantly decreased since 2014**
  - Yields have decreased across the entire yield curve
  - Short-term yields decreased by approximately 1 percentage points, long-term yields decreased by close to 1.5 percentage points between December 2014 and October 2020
  - The steepness of the yield curve decreased

Source: AKK

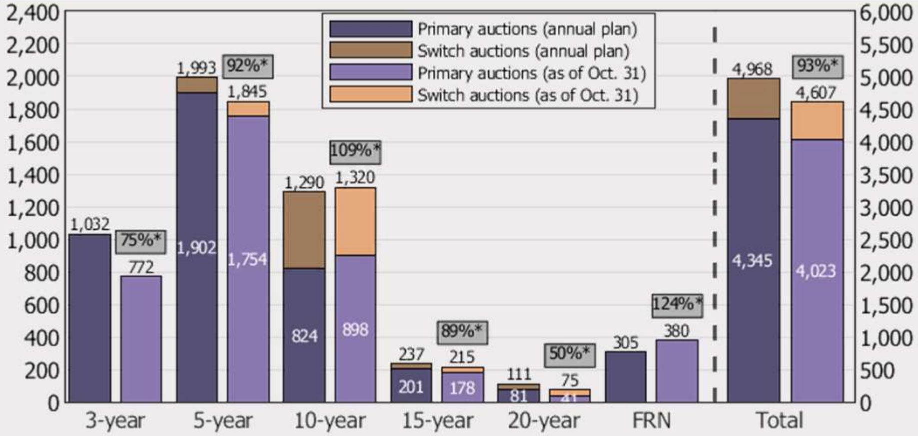
Cumulative monthly debt securities issuance and the ratio relative to the planned amount (HUF billion, %)



Source: AKK; Note: Government Bonds excluding repo transactions Discount Treasury Bills according to OECD methodology

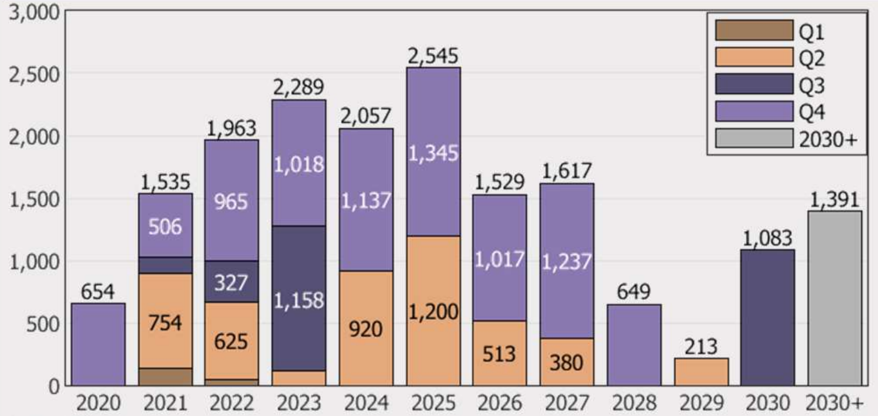
Government bond issuance on auctions by tenor in the first ten months of 2020

(Year-to-date issuance vs August 2020 financing plan excluding municipal bond sales, HUF billion)



*Source: AKK * Share of actual amount relative to plan (excluding switches)*

Maturity Structure of Wholesale Government Securities as of October 31, 2020 (HUF billion)



Source: AKK

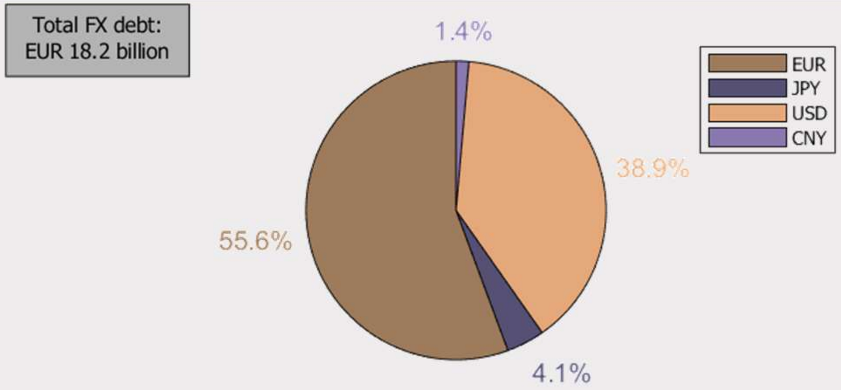
HUNGARY’S EXPOSURE TO INTERNATIONAL MARKETS IS CAREFULLY MANAGED

Key highlights

- **The share of Hungary’s government debt in foreign currency has materially decreased**
  - Buybacks implemented by AKK, both on public and OTC markets, have also contributed to this positive trend
  - While containing the share of FX exposure between 10% and 20% of total debt, Hungary would also like to maintain its presence on the international capital markets to ensure diversification of funding sources
- **The FX debt is mainly denominated in USD and EUR, but is fully converted into EUR using cross-currency swaps**
  - 100% of FX debt is denominated in EUR after swaps as of the end of October 2020, in line with AKK debt management target to mitigate exchange rate risk
- **Hungary’s EUR yields have significantly decreased since 2014,** and the country currently enjoys close-to-zero yields in short- to medium-term EUR market
- **AKK also relies on interest rate swaps to mitigate interest rate risk**
  - As of the end of October 2020, the interest rate swap portfolio amounted to 1.2 billion EUR and the fix rate share of the FX portfolio was 80%

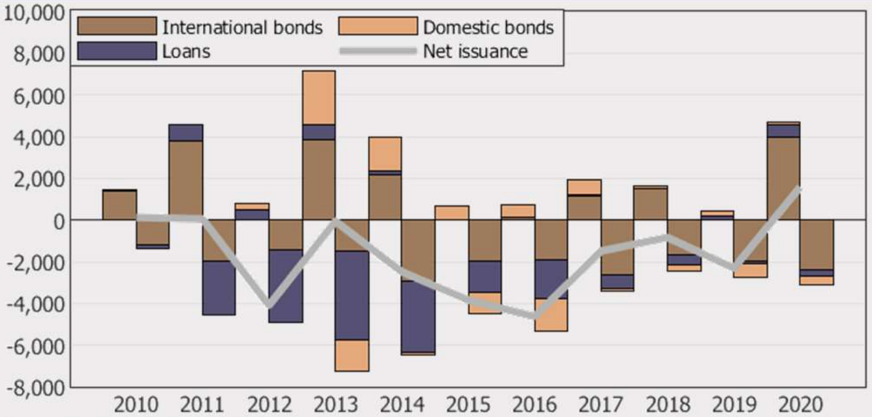
Source: AKK

FX debt composition by currency (September 30, 2020, % of total)



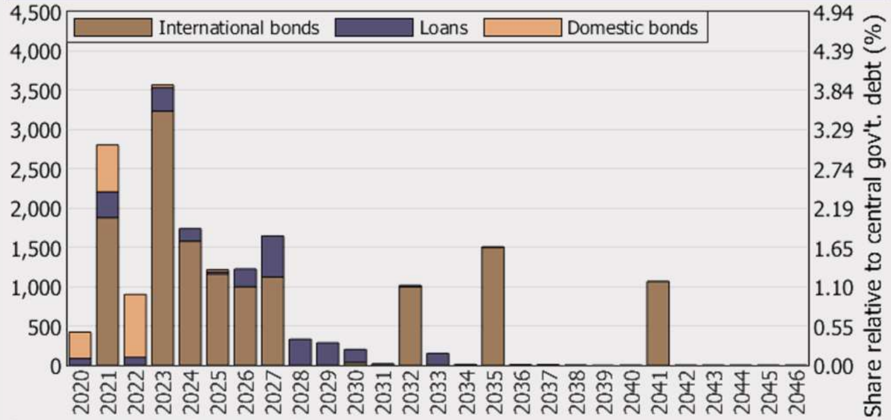
Source: AKK; Note: composition of the FX central government debt portfolio before swaps

FX Redemption, Issuance & Net Issuance (EUR million)



Source: AKK; Note: Central government debt

Redemption profile of FX debt as of September 30, 2020 (EUR million)



Source: AKK; Note: Central government debt

NEW FINANCING PLAN AS OF NOVEMBER 2020

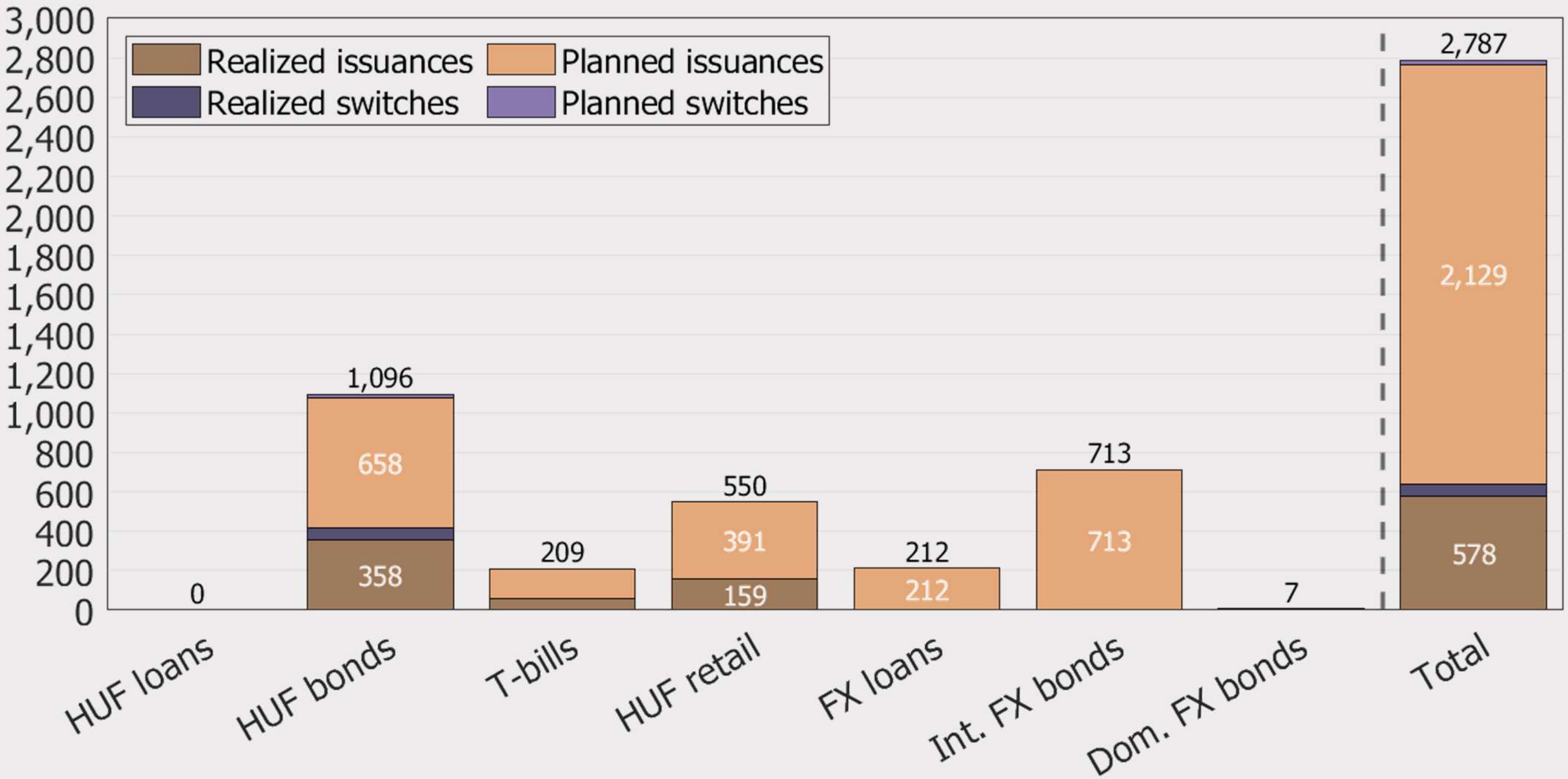
In November 2020, AKK amended its financing plan for the rest of the year by establishing the possibility to issue benchmark sized, dual tranche, long-dated foreign currency bonds for general funding purposes, including pre-financing 2021 FX debt maturities. Pre-financing will lower the gross issuance required in 2021.

1. The new issuance is subject to market conditions with general funding purposes use of proceeds, including pre-financing 2021 FX debt maturities. In addition, the envisaged issuance is also aimed at further improving of the maturity profile of Hungary's debt portfolio.

2. The new financing plan recognises that the targets set for domestic institutional and retail issuance in August may already be achieved in November. In order to further increase liquidity reserves, AKK will carry on with domestic issuances in line with the newly approved financing plan. Please refer to the slide 39 for more details.

Source: AKK

PLANNED GROSS ISSUANCE FOR THE REMAINDER OF 2020 YEAR (NOVEMBER - DECEMBER)



Source: AKK

RETAIL MARKET STRATEGIC OBJECTIVES

Despite the impact of Covid-19, the retail securities stock might remain flat this year. As a result, households' ownership will rise significantly.

1. The medium-term strategic goal to achieve HUF 11,000 billion retail debt stock owned by retail investors by 2023 is kept.

2. Hungary maintains the positive real interest rate of long term retail securities.

3. We continue to favour and develop online distribution channels to boost contactless sales and strengthen business continuity as demonstrated by the over 40% electronic sales through the Hungarian State Treasury's network.

4. Due to the favourable redemption profile of retail debt in the next 3 years, the focus will be on net increase in retail stock going forward with the aim to further enhance the ATM of the retail debt portfolio.

Source: AKK

DOMESTIC WHOLESALE MARKET STRATEGIC OBJECTIVES

AKK's main objective remains to increase both the ATM (maturity) and ATR (duration) targets of the central government debt portfolio. We continue to favour long-end issuance capitalising on market demand as well as the Central Bank's government bond purchase program.

1

AKK reduced T-bill and 3-year HGB issuance while at the same time increased 5-, 10-, 15- and 20-year issuance. This approach is expected to continue in the future, subject to favourable market conditions.

2

AKK introduced new switch bonds (29/A and 33/A) to support the duration extension goal. Switch auctions are expected to gain even greater importance in the years to come, as low redemptions in 2021 will provide opportunities to continue the active management and smoothening of HGB's maturity profile.

3

AKK intends to support the domestic market development of ESG-themed investments and as such we are considering the potential extension of Hungary's Green Bond Framework.

Source: AKK

INTERNATIONAL DEBT MARKET STRATEGIC OBJECTIVES

1. To date AKK has issued EUR 4 billion equivalent of international debt in 2020 in a combination of a 6- and 12-year dual tranche EUR benchmark, a 15-year EUR Green Bond and a multi-tranche Japanese Yen Samurai, including 2 long dated green tranches. Based on the new financing plan, AKK increased its international debt issuance target for 2020 by adding a dual-tranche benchmark sized EUR-denominated bond issuance.

2. The perspective issuance will - subject to market conditions - include two benchmark size tranches with potentially longer maturities than in April 2020. The use of proceeds will be general funding purposes, including pre-financing 2021 FX debt maturities.

3. AKK still plans to draw down more long-term foreign currency loans in 2020 provided by multilateral financing organisations and the EU's SURE program. With these, the amount of foreign currency loans raised is expected to exceed the EUR 500 million target in 2020.

4. Despite the higher notional of international debt issuance, the FX debt ratio of central government debt is not expected to exceed 20% according to AKK's benchmark. The ratio will decline in Q1 2021 following the pre-financed maturities. In accordance with previous years' practice, AKK is to continue the active management of foreign debt through buybacks.

Source: AKK

THANK YOU FOR YOUR ATTENTION!